

## HSBC InvestDirect Financial Services India Limited (HIFSL)

This note is directed at customers of HIFSL (to be referred as 'Non-Banking Finance Company (NBFC)' herein below) and to familiarise with key concepts outlined in the Reserve Bank of India (RBI) circular on 'Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances (IRACP) – Clarifications' dated 12 November 2021.

### A. Due date/repayment date

Any amount due to the NBFC under any credit facility is 'overdue' if it is not paid on the due date fixed by the NBFC.

### B. Special Mention Account (SMA) and Non-Performing Asset (NPA)

NBFCs will recognise the incipient stress in loan accounts, immediately on default, by classifying them as Special Mention Accounts (SMA). The basis of classification of SMA /NPA Category shall be as follows:

Loans other than revolving facilities		Loans in the nature of revolving facilities like cash credit/overdraft	
SMA Sub-categories	Basis for classification – Principal or interest payment or any other amount wholly or partly overdue	SMA Sub-categories	Basis for classification – Outstanding balance remains continuously in excess of the sanctioned limit or drawing power, whichever is lower, for a period of:
SMA-0	Up to 30 days	–	–
SMA-1	More than 30 days and up to 60 days	SMA-1	More than 30 days and up to 60 days
SMA-2	More than 60 days and up to 90 days	SMA-2	More than 60 days and up to 90 days

### Non-Performing Asset (NPA):

Borrower accounts shall be flagged as overdue by NBFC as part of their day-end processes for the due date, irrespective of the time of running such processes. Similarly, classification of borrower accounts as SMA as well as NPA shall be done as part of day-end process for the relevant date and the SMA or NPA classification date shall be the calendar date for which the day end process is run. In other words, the date of SMA/NPA shall reflect the asset classification status of an account at the day-end of that calendar date. The instructions on SMA classification of borrower accounts are applicable to all loans.

**Example:** If due date of a loan account is 31 March 2022, and full dues are not received before the NBFC runs the day-end process for this date, the date of overdue shall be 31 March 2022. If it continues to remain overdue, then this account shall get tagged as SMA-1 upon running day-end process on 30 April 2022 i.e. upon completion of 30 days of being continuously overdue. Accordingly, the date of SMA-1 classification for that account shall be 30 April 2022.

Similarly, if the account continues to remain overdue, it shall get tagged as SMA-2 upon running day-end process on 30 May 2022 and if continues to remain overdue further, it shall get classified as NPA upon running day-end process on 29 June 2022.

### C. Out of order

An account shall be treated as 'out of order' if:

- the outstanding balance in the CC/OD account remains continuously in excess of the sanctioned limit/drawing power for 90 days, or
- the outstanding balance in the CC/OD account is less than the sanctioned limit/drawing power but there are no credits continuously for 90 days, or the outstanding balance in the CC/OD account is less than the sanctioned limit/drawing power but credits are not enough to cover the interest debited during the previous 90 days' period.

#### **D. NPA classification in case of interest payments**

With effect from 31 March 2022, in case of interest payments, an account is classified as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter. In short for interest payments in respect of term loans, an account will be classified as NPA if the interest applied at specified rests remains overdue for more than 90 days.

#### **E. Upgradation of accounts classified as NPAs**

It is clarified that loan accounts classified as NPAs may be upgraded as 'standard' asset only if entire arrears of interest and principal are paid by the borrower. With regard to upgradation of accounts classified as NPA due to restructuring, non-achievement of Date of Commencement of Commercial Operations (DCCO), etc., the instructions as specified for such cases shall continue to be applicable.

#### **F. Income recognition policy for loans with moratorium on payment of interest**

In cases of loans where moratorium has been granted for repayment of interest, NBFCs may recognise interest income on accrual basis for accounts which continue to be classified as 'standard'. It is clarified that if loans with moratorium on payment of interest (permitted at the time of sanction of the loan) become NPA after the moratorium period is over, the capitalised interest corresponding to the interest accrued during such moratorium period need not be reversed.

#### **Example:**

If interest becomes due on a loan account on say 31 March 2022, and payable on 7 April 2022, and if the full dues on account of interest are not received before the lending institution runs the day-end process for this date, the date of overdue shall be 7 April 2022. If it continues to remain overdue, then this account shall get tagged as SMA-1 upon running day-end process on 7 May 2022 i.e. upon completion of 30 days of being continuously overdue. Accordingly, the date of SMA-1 classification for that account shall be 7 May 2022.

Similarly, if the account continues to remain overdue, it shall get tagged as SMA-2 upon running day-end process on 6 June 2022 and if continues to remain overdue further, it shall get classified as NPA upon running day-end process on 6 July 2022.